

**Toward Successful Promotion
of
Micro-, Small- and Medium-sized Enterprises (MSMEs)
by
Observing Experiences in Japan and Malaysia**

- Centricity of MSMEs Finance -

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Japan International Cooperation Agency (JICA)

**Southern African Development Community -
Development Finance Resource Center (SADC-DFRC)**

Preface

Developing and emerging economies are predominantly characterized by micro-, small- and medium-sized enterprises (MSMEs) and Southern African countries, where on average MSMEs account for more than 50% of GDP, are no exception. Hence, through national and regional development plans and initiatives, MSMEs have long been recognized as key agents towards achievement of the critical development goals of sustainable and inclusive economic growth, employment generation, poverty alleviation and the overall attainment of SDGs.

However, the successful achievement of these developmental goals through the promotion of MSMEs is premised on the existence of a conducive and enabling environment. In essence, it is critical that governments put in place an effective institutional framework which brings together in a cohesive way the policy, regulatory and financial structures as well as the main stakeholders from the government, municipalities and the private sector, including MSMEs structures, all with a common goal of ensuring successful MSMEs across all growth sectors.

Many countries have over the years put in place various systems to promote MSMEs in their economies but with varying degrees of success. Japan and Malaysia stand out as countries that have successfully developed their economies on the back of MSMEs where these now not only account for in excess of 95% of the economy but are also major employers across many sectors. MSMEs are also at the core of the industrialization and export-led growth of the two economies. In this respect, the success of Japan and Malaysia, in particular, to the extent that it has been replicated with significant positive results in the Asian region and beyond, provides best practice to developing countries. Africa and, especially the SADC region, could also benefit from this experience.

As this report brings out clearly, a major factor underpinning the success of both the Japanese and Malaysian MSMEs sector has been the centrality of financing, the absence of which, notwithstanding other available supportive structures in place, would have resulted in failure. Development finance institutions (DFIs), in this respect, take center stage as they are at the core of MSMEs development. SADC and more specifically the DFI sector could learn a lot from the experiences of Japan and Malaysia.

Japan International Cooperation Agency (JICA) and Southern African Development Community - Development Finance Resource Center (SADC-DFRC) strongly recommend readers of this report to study the MSMEs-enabling environment of the two countries that have been indispensable to their successful economic development and industrialization, especially their policies, financing and regulation structures; and how all stakeholders work in unison with a common goal towards successful MSMEs.

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I. Japan's Structure of MSMEs Support

In the process of Japan's economic, industrial and social development after World War II, micro-, small- and medium-sized enterprises (MSMEs) has played an extremely important role in Japan until today. As described below, many Japanese people are employed by MSMEs and Japan's larger companies cannot provide any products and services without MSMEs. At the same time, the process of development shows that Japan's MSMEs have received various kinds of supports from governments and government agencies.

Based on these understanding, Japan International Cooperation Agency (JICA) and Southern African Development Community - Development Finance Resource Center (SADC-DFRC) dispatched delegation consisting of 11 representatives (mainly chief executive officers (CEOs)) from development finance institutions (DFIs) in eight countries from September 24 (arrival to Japan) to October 3 (departure from Japan), 2018. The DFRC was of the view that SADC-DFRC's DFIs that are mandated as economic, industrial and social development mainly by promoting MSMEs and creation of jobs would benefit from the Japanese experience. The objectives of this delegation were for the DFIs to learn about the policy and institutional financing and regulatory arrangements for MSMEs in Japan.

1. Brief History of Japan's MSMEs Policies and Institutions

In general, Japan's MSME policies have been developed and enhanced with various measures while reviewing the basic philosophy according to the needs of the times. It is usually discussed that there were three phases of philosophical changes as follows.

The concept of MSMEs' policy was not a concept with a long history in Japan. Therefore, the first phase can be said to be started at the time to establish the Small and Medium Enterprise Agency in 1948 to prevent concentration of economic power and foster healthy MSMEs. It is important that many coal mines in Japan were closed during this period and creating a job was one of the key challenges in conjunction with the post-war recession in Japan. It can be said that the second phase was the enactment of the SME Basic Act of 1963. In the background, it is important that the disparity between larger and smaller firms became apparent. In addition, there were circumstances in which the Japanese economy shifted to an open economic system due to trade liberalization and it had to urgently cope with intensifying international competition. The third phase is to be said that a fundamental amendment of the SME Basic Law was enacted in November 1999¹. This new law viewed MSMEs as a source of dynamism in the economic, industrial and social development of Japan. Specifically, MSMEs were expected to become key player(s) in (1) creating new industries, (2) expanding employment opportunities, (3) promoting market competition and (4) revitalizing regional economies^{2,3}.

¹ The law was once revised in 1973. However, the purpose was to revise the definition of SMEs, which was not fundamental change of the law enacted in 1963.

² The law in English can be obtained from the following website:
<<https://www.chusho.meti.go.jp/sme_english/outline/08/01.html>>.

³ There are many articles on the historical perspectives of Japanese MSME policy. Details will be transferred to other ones.

2. Present Situations of MSMEs in Japan

As mentioned earlier, MSMEs are defined as each industry sector by the SME Basic Law (as amended in 1999). MSMEs are companies that meet either capital or number of employees in each sector as in the following table:

Definition of MSMEs

	Manufacturing and Others	Wholesale	Retail	Service
Capital	300 million yen or less	100 million yen or less	50 million yen or less	50 million yen or less
Number of Employees	300 or less	100 or less	50 or less	100 or less

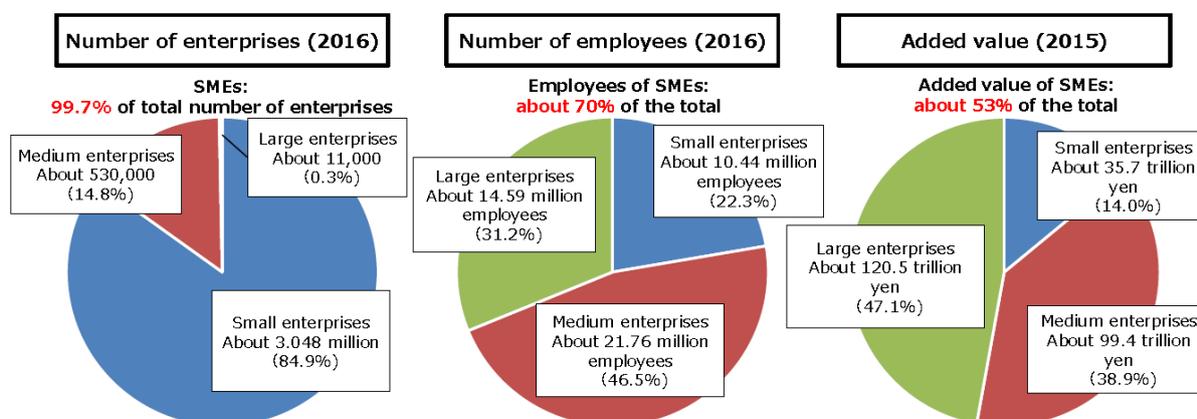
In addition, small enterprises are defined in terms of policy development and implementation as in the following table:

Definition of Small Enterprises

	Manufacturing and Others	Commerce and Services
Number of Employees	20 employees or less	5 employees or less

As shown in the following charts, MSMEs share large portions as follows: 99.7% of total number of enterprises in 2016; about 70% of total employees in 2016; and about 53% of total added value.

Number of Enterprises and Employees and Added Value by Size of Enterprise



(Source) Japan's Small and Medium Enterprise Agency.

3. Policies for MSMEs

According to Japan's Small and Medium Enterprise Agency, outline of major MSMEs policies can be described as follows⁴:

a) Management Support:

Start-ups and ventures:

Assists those planning to start a business or venture owners trying to improve their operations in financing

⁴ <<https://www.chusho.meti.go.jp/sme_english/outline/04/01.html>>.

and obtaining relevant information.

Business innovation:

Assists SMEs undergoing business innovation in financing, handling taxes and cultivating markets.

New collaboration:

Supports collaboration among SMEs to enter new areas of business by providing subsidies, advice and financing assistance.

Business revitalization:

Supports SMEs' efforts to revitalize their business through the SME Revitalization Support Committee.

Employment and human resources:

Supports SMEs' human resources development and resolution of business challenges by implementing the Small and Medium Sized Enterprise Consultants system, offering training and dispatching experts.

Globalization:

Provides information and advice to help SMEs to move production overseas or find markets abroad.

Trade practices and public procurement:

Promotes fair subcontracting practices and the development of small and medium sized subcontractors and thereby increases the opportunity for SMEs to win contracts.

Business stability:

Assists SMEs in maintaining stable operations by supporting them for bankruptcy, pandemic new influenza, and earthquakes and other natural disasters, as well as by leading them to develop a business continuity plan.

Mutual aid system:

Helps small companies to prepare for business closing and retirement, and SMEs to prepare for the bankruptcy of their major customers.

Small businesses:

Provides managerial and financial support to small businesses with 20 or fewer employees (5 or fewer for those in the commerce or service sector).

Small and medium manufacturers:

Supports R&D and human resources development at SMEs with key manufacturing technologies. Selects 300 of Japan's Exciting Monozukuri (Manufacturing) SMEs.

Technological innovation, IT and energy efficiency:

Assists SMEs committed to technological development, IT utilization and higher energy efficiency by providing subsidies, financial assistance and relevant information.

Intellectual property:

Supports SMEs' intellectual property strategies by implementing measures to protect intellectual property and measures to combat damage caused by counterfeiting.

SME Assistance Centers:

Dispatches experts to assist SMEs in addressing difficult or specialized business challenges (e.g., launch of new operations, business succession) and otherwise helps SMEs directly or via support institutions.

b) Financial Support:

Safety-net guarantee program:

Supports SMEs whose business stability is threatened by external factors (e.g., a major customer's restricted

operations or application for rehabilitation procedures, the impact of a disaster, failure of the main bank) by making additional credit guarantees available.

Safety-net loans:

Makes loans to SMEs temporarily facing cash-flow problems due to a radical change in the business environment, the bankruptcy of a major customer, or the streamlining of the main bank.

c) Fiscal Support:

Taxation:

Gives information and advice on various tax measures to support SMEs.

Accounting:

Gives information and advice on SME accounting, which helps SMEs to enhance their capability to analyze management, ensure financing and increase order intake.

Companies Act:

Gives information and advice on the new Companies Act, which additionally includes systems that bring significant benefits to SMEs, such as the accounting adviser system.

Business succession:

Gives information and advice on measures to support SMEs' smooth business succession.

d) Commerce and Regional Support:

Revitalization of commerce:

Supports efforts to improve the attractiveness of small and medium merchants, shopping districts and city centers.

Regional industries:

Inigorates regional industries, such as locally based industries and traditional handicrafts industries, by providing subsidies and low-interest loans.

Collaboration between agriculture, commerce and industry:

Comprehensively assists business activities conducted by organic partnerships between SMEs and those engaged in agriculture/forestry/fisheries through the effective use of their business resources.

"Meet and Experience Regional Attractiveness" campaign:

Aggressively increases the publicity of attractive regional products.

4. MSMEs Policies and Institutions Suitable for Current Situations of SADC Countries

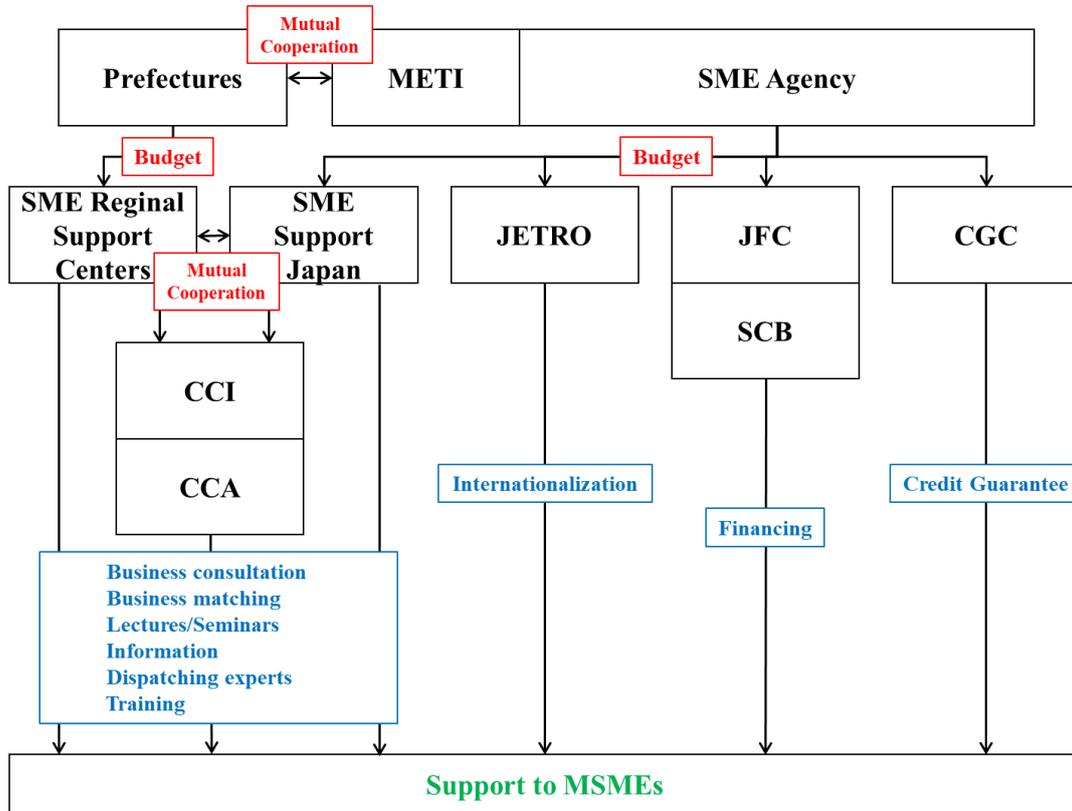
(1) Institution to support MSMEs

Through visit to Organization for Small & Medium Enterprises and Regional Innovation, JAPAN (SME Support, Japan⁵) in the field study, a briefing was given on the structure of MSMEs' supports implemented by Ministry of Economy, Trade and Industry (METI)⁶.

⁵ SME Support, Japan, is regulated by METI. The organization was established in July 2004 to take over Japan Small and Medium Enterprise Corporation (JASMEC). The capital amount is approximately 1.70 trillion yen as of October 30, 2019, and the organization has 13 executives and 748 employees as of April 1, 2019.

⁶ Small and Medium Enterprise Agency (SME Agency) is one of the external agencies of METI and the agency is in charge of promotion and development of MSMEs.

MSMEs Policies and Implementation by METI



(Source) SME Support, Japan. Picture is modified.

As one of the major organizations to promote MSMEs, SME Support, Japan, implements the following programs based on the stages of MSMEs' development as follows:

Major Programs of SME Support, Japan, by Phase

→	→	→	→
<p style="text-align: center;"><u>Start-up Phase</u></p> <ul style="list-style-type: none"> ● Incubation Facilities ● Utilization of Regional Resources / Agri-Commerce-Industry Collaborations/New Partnerships 	<p style="text-align: center;"><u>Growth Phase</u></p> <ul style="list-style-type: none"> ● Market Expansion ● Online Matching ● Overseas Business Development 	<p style="text-align: center;"><u>Maturity Phase</u></p> <ul style="list-style-type: none"> ● Business Succession ● Business Turnaround ● Urban Center Vitalization / Infrastructure Development 	<p style="text-align: center;"><u>All Phase</u></p> <ul style="list-style-type: none"> ● Consulting Services ● Dispatching Experts ● Talent Development ● Information ● Funding ● Supporting SME-related Organizations

(Source) SME Support, Japan.

SME Support, Japan, has partnered with the following 16 overseas organizations through MOU. These organizations are helping Japanese MSMEs expand their businesses in partner countries and vice versa.

Overseas Partners of SME Support, Japan

Name of Institution	Nation or Region	MOU signed
Small & Medium Business Corporation (SBC)	Korea	07/31/97
Office of SMEs Promotion (OSMEP)	Thailand	08/27/02
Confederation of Indian Industry (CII)	India	02/27/06

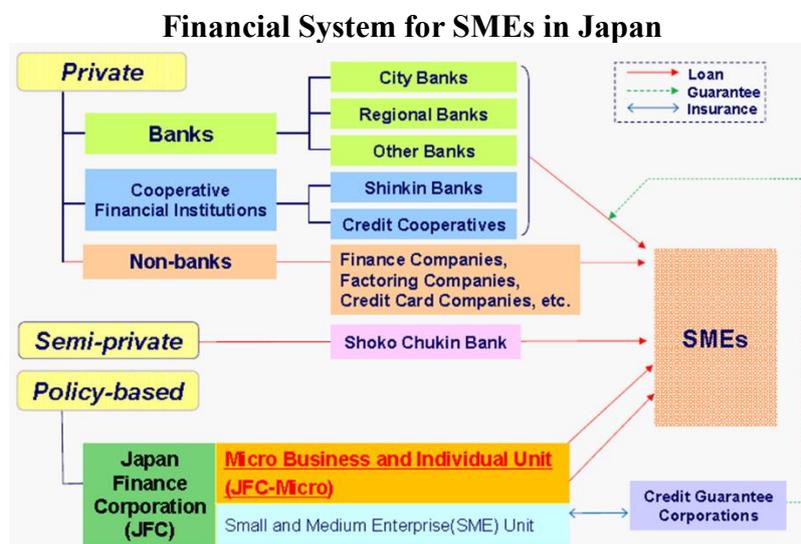
Name of Institution	Nation or Region	MOU signed
SME Corporation Malaysia (SME Corp. Malaysia)	Malaysia	07/18/07
Agency for Enterprise Development, Ministry of Planning and Investment (AED)	Vietnam	11/15/07
Khalifa Fund for Enterprise Development (Khalifa Fund)	United Arab Emirates	12/17/07
Hong Kong Trade Development Council (HKTDC)	Hong Kong	07/26/11
Republic of the Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI)	Myanmar	10/30/13
National Entrepreneurship Institute (Riyadah)	Saudi Arabia	05/04/14
Ministry of Cooperatives and SMEs (MOCSME)	Indonesia	07/17/14
Ministry of Industry (MOI)	Thailand	09/05/14
Kasikornbank	Thailand	01/23/15
Foreign Investment Agency (FIA) , Ministry of Planning and Investment (MPI)	Vietnam	06/21/16
Bpifrance	France	12/06/16
Kaohsiung Chamber of Industry	Taiwan	12/13/16
Taiwan Electrical and Electronic Manufacturers' Association (TEEMA)	Taiwan	02/02/16

(Source) SME Support, Japan.

(2) Financing to MSMEs

(a) Financial System for MSMEs in Japan

In the field study, the delegate visited Japan Finance Corporation (JFC). JFC made explanation about Japan’s total institutional framework of financial supports to MSMEs as follows:



(Source) Japan Finance Corporation (JFC).

Based on the above-mentioned figure, JFC compiled loan outstanding for MSMEs by using “2018 White Paper on Small and Medium Enterprises in Japan” by Small and Medium Enterprise Agency and other sources.

Loan outstanding for MSMEs by type of financial institutions are shown as follows.

Loan Outstanding for MSMEs (As of the End of March 2018)⁷

Type of Financial Institutions	Balance		Number of Borrowers (Million)
	(trillion JP¥)	(%)	
Private financial institutions	257.4	92.7	-
Private banks (city and regional banks and others)	201.1	72.4	2.02
Corporate financial institutions	45.2	16.2	1.13
Shinkin banks	11.0	4.0	-
Credit cooperatives			
Shoko Chukin Banks (Semi-private)	8.6	3.1	-
JFC (Policy-based financial institutions)	11.7	4.2	0.91
Micro Business and Individual Unit	6.1	2.3	0.97
Small and Medium Enterprise (SME) Unit	5.5	2.0	0.04
Total	277.8	100.0	-

(Source) Japan Finance Corporation (JFC).

(b) Programs and Situations of JFC-Micro

As shown in the above table, there are two unit among JFC: “Micro Business and Individual Unit” (hereinafter written as “JFC-Micro”) and “Small and Medium Enterprise (SME) Unit.” JFC-Micro has two types of programs (“Business Loan” and “Special Loans”) as follows:

JFC-Micro’s Loan Programs: Business Loan Programs (in FY2017) (in Amount)

Type of Loan	Basic Conditions	Ratio of Loans Disbursed (%)
General Loan	<ul style="list-style-type: none"> ● Available to SMEs in most industries ● Maximum loan amount: JP¥48 million 	9.7
Special Loan	<ul style="list-style-type: none"> ● To extend in response to the government’s economic and financial policy for SMEs ● Maximum loan amount: JP¥72 million 	74.0
Managerial Improvement Loan (“MARUKEI”)	<ul style="list-style-type: none"> ● Available to SMEs that received recommendation from Chamber of Commerce and Industry (CCI)/Society of Commerce and Industry (SCI)⁸ ● Not required for collaterals nor guarantors ● Maximum loan amount: JP¥20 million 	12.4
Environmental Health Business Loan (EHB Loans)	<ul style="list-style-type: none"> ● Available to SMEs related to public hygiene such as restaurants, barber shops, laundries or hotels ● Maximum loan amount: depends on industries (for example, JP¥150 million for restaurant or JP¥720 million for hotel) 	3.8

(Source) Japan Finance Corporation (JFC).

JFC-Micro’s Loan Programs: Special Loans (as of FY2018)

Safety-net Loans
Business environment change funds
Financing environment change funds
Bankruptcy measure funds
Business Vitality Strengthening Loans
Business vitality strengthening funds
Information technology funds
Regional vitalization & employment promotion funds
Overseas expansion funds

⁷ Non-banks and local government’s lending are excluded.

⁸ This means that JFC-Micro’s partnerships with CCIs and SCIs all over Japan are solidly formed for promotion of MSMEs.

New Business Nurturing Loans
Business start-ups funds
Women, youth and senior entrepreneurs funds
Environment & Energy Measure Loans
Business Revitalization Loans

(Source) Japan Finance Corporation (JFC).

Among JFC businesses, 23% of Japanese MSMEs are JFC-Micro's customers. This can be clearly said that JFC-Micro provides small loans to large number of micro businesses. In addition, enterprises of "4 persons or less" shared largest in borrowers.

JFC-Micro's Loan (as of March 31, 2018)

	Number of Institutions	Number of MSMEs Customers (Million)	Average Loan Balance per Customer (Million JPY)
JFC - Micro	1	0.87	7.0
Private Banks	137	2.02	98.7
Shinkin Banks	261	1.13	39.7

(Source) Japan Finance Corporation (JFC).

JFC-Micro's Loan: Breakdown of Borrowers (Loans disbursed in FY2017)

Size of Enterprises by Number of Employee	Share of Number of Borrowers (%)
4 persons or less	71.6
5-9 persons	18.0
10-19 persons	7.1
20 or more	3.4

(Source) Japan Finance Corporation (JFC).

Furthermore, according to JFC, 85.5% of JFC-Micro's loan (disbursed in FY2017) was no collateral and ratio of risk management loans (non-performing loans (NPL) ratio) were 7.5% in total as of March 2018: 0.1% in loans to borrowers in bankruptcy; 1.5% in past due loans in arrears of 3 months or more; and 5.9% in restructured loan.

(c) International Cooperation

According to JFC-Micro, technical assistance for developing countries was started in 2003 as the ODA project by Policy Research Institute (PRI), Japan's Ministry of Finance (MOF). As a result, knowledge of such MSMEs finance as credit analysis technique, support for revising "credit analysis form" or "manual" has been shared to DFIs in the following countries through seminars as well as discussions:

Technical Assistance for Developing Countries by JFC-Micro

	Financial Institutions	Period
Vietnam	Vietnam Bank for Social Policies (VBSP)	2003~2011
Malaysia	SME Bank	2008~2011
Laos	Lao Development Bank (LDB)	2011~2017
Myanmar	Myanmar Economic Bank (MEB)	2015 (continued)

(Source) Japan Finance Corporation (JFC).

(3) Credit Guarantees

According to Japan Federation of Credit Guarantee Corporations (JFG), features of Japan’s credit guarantee system by are shown as follows:

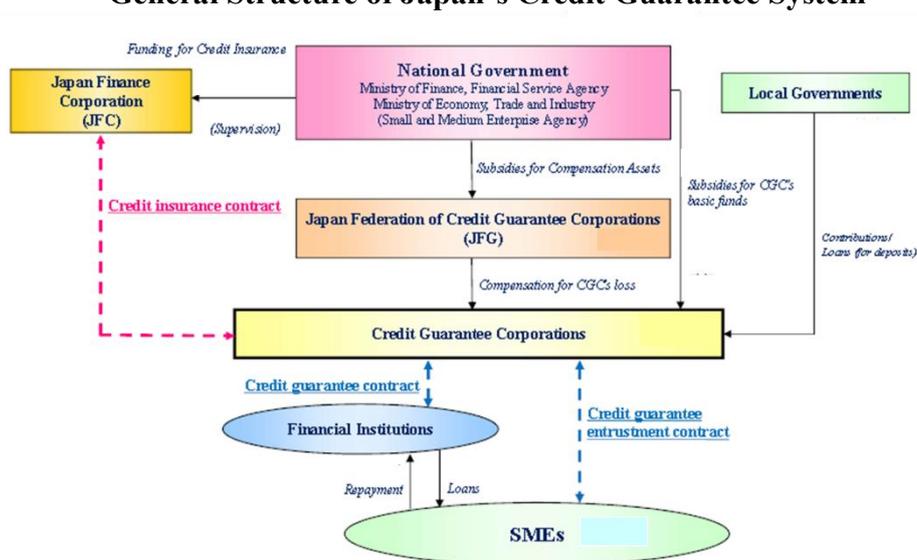
Features of Japan’s Credit Guarantee System

- Japan’s Credit Guarantee Corporations (CGCs) were established separately in 51 regions with all of 47 prefectures and 4 major cities.
- Guaranteed liabilities are insured by JFC (70% or 80% coverage) (Comprehensive Insurance System).
- CGCs are public corporations which rely on contributions from the national and local governments and financial institutions for their capital (Basic assets fund) to secure guarantees.
- CGCs' guarantee coverage for the financial institutions' MSME loan was generally 100%. However, “System of Sharing of Responsibilities with Financial Institutions” with the coverage of guarantees set at 80% has been introduced to the System since October 2007.
- Two ways are available for the application: One is to apply CGC directly; and the other is through a financial institution.

(Source) Japan Federation of Credit Guarantee Corporations (JFG)

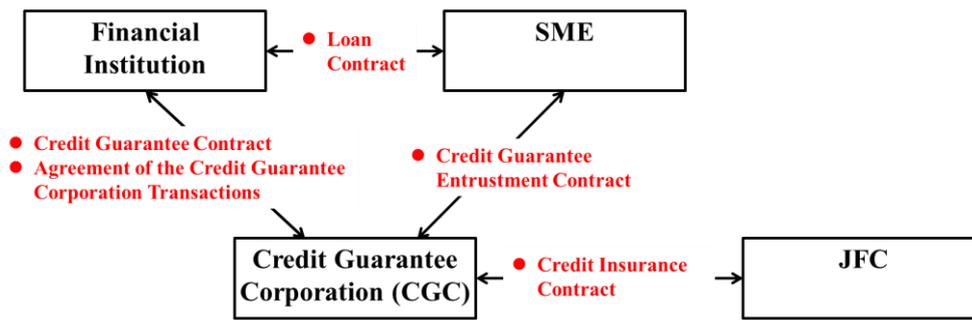
In addition, credit guarantees for MSMEs in Japan are based on contractual partnerships with related stakeholders as follows.

General Structure of Japan’s Credit Guarantee System



(Source) Japan Federation of Credit Guarantee Corporations (JFG)

Contractual Relationships among Stakeholders



(Source) Japan Federation of Credit Guarantee Corporations (JFG)

According to JFG, the following devices are introduced for maintaining fiscal soundness of CGCs system as follows:

a) Reserve for Bad Debts:

Corresponds to the allowance for doubtful receivables of ordinary corporations. In each fiscal year, the amount of the reserve is adjusted in accordance with actual figures, such as 0.6% of insured guaranteed liabilities and 10% of overdue guaranteed liabilities.

b) Reserve for Depreciation of Indemnity Right:

A reserve for depreciation of indemnity right. The reserve is equal to the total amount of 33% of subrogation for the current fiscal year, 67% of subrogation from the previous fiscal year and 100% of subrogation from two fiscal years previous. The amount of the reserve is re-calculated on a running basis.

c) Reserve Asset for Subrogated Payment:

This reserve, which is equivalent to 2% of guaranteed liabilities, calculated at the end of each month, is in order to avoid the inability to subrogate loans. The reserve must be kept in cash and cash equivalents, deposits, government bonds, and the like.

(Source) Japan Federation of Credit Guarantee Corporations (JFG)

(4) Community Finance

As a system of community finance, there are “Shinkin Banks” in Japan. According to Shinkin Central Bank (SCB), Shinkin Banks have two characteristics obtained at the field study: (a) Shinkin banks are regional financial institutions structured as cooperative organizations serving regional MSMEs and local residents; and (b) Predicated on mutual-aid and non-profit principles, Shinkin bank’s businesses operations are dedicated to serving the needs of members, users and local communities. SCB also said that there are three kinds of vision: a) contribution to the prosperity of local communities; (b) sound development of SMEs; and (c) realization of fruitful lives of the people.

As of March 31, 2018, there are 261 different Shinkin Banks with total of 7,347 branches all over Japan. Business activities by the banks are different from commercial banks, which are defined through legislation as follows:

Comparison of Commercial Banks and Shinkin Banks

	Commercial Banks	Shinkin Banks
Legal Foundation	Banking Act	Shinkin Bank Act
Purpose for Establishment	To promote smooth financing for the general public	To promote increased savings and smooth financing for the general public
Organization	For-profit joint stock corporations	Non-profit cooperative organization financed by its members
Membership Qualifications (regional)	None	(1) Those who have an address or location in the region (2) Those who have a business office in the region (3) Those who work in the region (4) Executive officers of companies that have a business office in the region (In the case of businesses) Businesses with no more than 300 employees or with less than 900 million yen in capital
Scope of Operations (Deposits, Lending)	No limitations	(1) No restriction on deposits (2) As a rule, lending is limited to members, but can be extended to non-members with certain restrictions (alumni lending available).

(Source) Shinkin Central Bank (SCB).

As shown in the above table, business activities of Shinkin Banks can be promoted only within designated areas. In addition, in the case of the banks to do businesses with private companies, company's size or capital is set in advance by the act. According to SCB, as of March 31, 2018, total deposits outstanding by all of 261 Shinkin Banks reached approximately ¥140 trillion (\$1,326 billion), the third ranked after city banks and regional banks.

During field study, delegates visited Johnan Shinkin Bank, one of the largest Shinkin Banks in Japan. The business sales area is the whole of Tokyo and the eastern part of Kanagawa prefecture with 86 branches and 2,135 employees as of March 31, 2019. In addition, total assets were JP¥3,886.2 billion, deposits were JP¥3,660.9 billion, loans were JP¥2,197.2 billion and equity ratio was 9.63%.

As a characteristic of Shinkin Banks, in the case that a local customer requests borrowing to Johnan Shinkin Bank, the bank asks the customer about the borrowing purpose, interest rate, period, collateral and guarantee, the bank proposes "order-made" loan. In addition, the bank makes every effort for business development of local MSMEs in response to their needs of working capital and capital funding. According to the bank, needs in working capital are greater than those in capital funding and share of loans in working capital are over 80% in terms of outstanding.

(5) Situation of Provincial City

During field study, delegates visited Sanjo City in Niigata Prefecture. Sanjo city is located north-northwest of Tokyo and the distance is approximately 300 kilometers. By using Joetsu Shinkansen (bullet train), it takes about 1 hour and 45 minutes from Tokyo Station. In addition, according to Japan's Census, population of the city was 99,192 as of October 1, 2015.

Sanjo City has long been famous for its forging technology in Japan. Indeed, forging technology was the traditional industry of the city. The technology has had a comparative advantage in Japan and has grown to become the core of the local industry. Now it has

international competitiveness. It can be said that traditional industry has grown into local industry, which are now internationally competitive. At the same time, it is important that the majority of companies with this technology are MSMEs.

To explore the process of its success, delegates had an opportunity to meet together with representatives from City of Sanjo, Sanjo Chamber of Commerce and Industry, Tsubamesanjo Regional Industries Promotion Center and Sanjo Shinkin Bank. First of all, it should be mentioned as a major premise that these MSMEs have grown while competing with each other even within the region. The key is the diversification of products. When you get off at the nearest station of the city on the Joetsu Shinkansen, you will see a showcase of various products using forging technology on the concourse of the station. Second, in order to achieve this, these representatives have continued to communicate with MSMEs to this day. The accumulation of such daily communication was successful in understanding the issues and challenges that MSMEs have. Third, these representatives are familiar with MSMEs policies of central government. Through day-to-day communication with MSMEs, knowledge of these representatives was easily transferred to the enterprises, which in turn encouraged penetration of the policies. This has facilitated the approach of MSMEs to the policies and made it possible to make the most of those policies. What impressed us was that these representatives and MSMEs spoke in the same words and had the same direction. Finally, Sanjo City has formulated and implemented its own policies for MSMEs to address issues and challenges that cannot be resolved by policies by central government. Needless to say, representatives and MSMEs have repeatedly discussed for the formulation. It can be said that these discussions were not so difficult because representatives and MSMEs have had daily communication and, as a result, they have already had a trusting relationship.

II. Economic and Industrial Development in Malaysia and the Role of MSMEs

In SADC countries, the promotion of MSMEs becomes more important in economic, industrial and development and even in the future especially for job creation in response to the surge in the working population in recent years. This is also important from the perspective of achieving the SDGs. In order to promote MSMEs, various policies need to be introduced. In this context, financial support is one of the key elements and DFIs have needed to play a more central role than ever before.

Through JICA and other government institutions, including state-owned Japan's DFIs, the Japanese experience has been shared with and adapted by some developing countries through technical cooperation, grant assistance and ODA loans primarily in Asian countries with some positive results in such countries as South Korea, Thailand, Malaysia, Indonesia, the Philippines or Vietnam, to mention a few. In particular, Malaysia is now internationally known as one of the most successful countries in MSMEs development. Therefore, SADC-DFRC's CEO and JICA Advisor conducted field study in Malaysia from October 3 (arrival to Malaysia) to October 16 (departure from Malaysia), 2018. The following is a report that highlights issues in light of the current challenges and issues facing SADC countries.

1. Basic Information

Malaysia is located in Southeast Asia. The country lands around the southern half of the South China Sea. To proceed with the discussion, the basic data on Malaysia is firstly and shortly summarized as follows:

Basic Data on Malaysia (2018)

Land area (sq. km)	328,550
Population	31,528,585
Population ages 0-14 (% of total population)	24.0
Population ages 15-64 (% of total population)	69.3
Population ages 65- (% of total population)	6.7
GDP per capita (current US\$)	11,373.2
Agriculture, forestry, and fishing, value added (% of GDP)	7.5
Industry (including construction), value added (% of GDP)	38.3
Manufacturing, value added (% of GDP)	21.6
Services, value added (% of GDP)	53.0
General government final consumption expenditure (% of GDP)	12.0
Households and NPISHs final consumption expenditure (% of GDP)	57.4
Final consumption expenditure (% of GDP)	69.4
Gross capital formation (% of GDP)	23.6
Exports of goods and services (% of GDP)	68.8
Imports of goods and services (% of GDP)	61.7
Agricultural raw materials exports (% of merchandise exports)	1.3
Food exports (% of merchandise exports)	9.2
Fuel exports (% of merchandise exports)	15.3
Manufactures exports (% of merchandise exports)	69.5
Ores and metals exports (% of merchandise exports)	4.3

Agricultural raw materials imports (% of merchandise imports)	1.8
Food imports (% of merchandise imports)	7.6
Fuel imports (% of merchandise imports)	14.6
Manufactures imports (% of merchandise imports)	70.3
Ores and metals imports (% of merchandise imports)	5.3

(Source) World Bank. 2020. World Development Indicators (NPISHs: nonprofit institutions serving households).

2. Economic and Industrial Development

A comparative review of economic and industrial development with other Asian countries helps in understanding Malaysia's economic and industrial development processes and in contrast to the current state of Sub-Saharan Africa.

(1) Prehistory: Process of economic and industrial development in NIEs' countries

In the 1990s, the word of "NIEs" (Newly Industrialized Economies) was frequently used. Generally, NIEs countries in Asia typically consisted of Hong Kong, Korea, Singapore and Taiwan⁹.

These NIEs' countries, except Hong Kong, embarked on economic and industrial development through import substitution policies in the 1950s and 1960s under their strong leaderships of governments. However, the policies in these countries ended shortly. This is because these countries have no natural resources and, as a result, in the late 1960s, they have had to adopt export-led industrialization policies by exporting industrial products in order to obtain foreign currency¹⁰. It is important to note that these governments have sought to make the most of human resources (not natural resources) in promoting economic and industrial development. Governments of each country have promoted export promotion policies for accumulating capital, increasing productivity and improving technology. In addition, the key to the policies was the acceptance of foreign direct investment (FDI). It is no exaggeration to say that these countries have achieved sustainable economic and industrial development by gaining international standards of technology and management techniques through FDI.

(2) Process of economic and industrial development in ASEAN 4 countries

The word of "ASEAN 4" was used extensively from the 1990s in comparison to the NIEs. ASEAN is an abbreviation for Association of Southeast Asian Nations and ASEAN 4 consists of four countries, Indonesia, Malaysia, the Philippines and Thailand.

It is important to understand that the ASEAN 4 countries have different initial conditions that the NIEs countries had. First, these countries have a history of being incorporated into the colonial economy. Second, these countries traditionally have been rich in natural resources (for

⁹ Currently, the word of "NIEs" is rarely used. The same goes for "NICs" (Newly Industrializing Economies), which were once frequently used. This article dared to use this old term. This is due to the fact that comparison with NIEs countries is useful in considering Malaysia's economic and industrial development.

¹⁰ This point is extremely important in considering the future economic and industrial development of SADC countries. This point will be elaborated in another paper.

examples, Indonesia for rubber and coffee, Malaysia for rubber and tin, the Philippines for sugar and coconut and Thailand for rice) and a monoculture economy utilizing its own resources had been established under the colonial economy. As a result, these countries were able to export products from traditional monoculture economy and gain the minimum level of foreign currency.

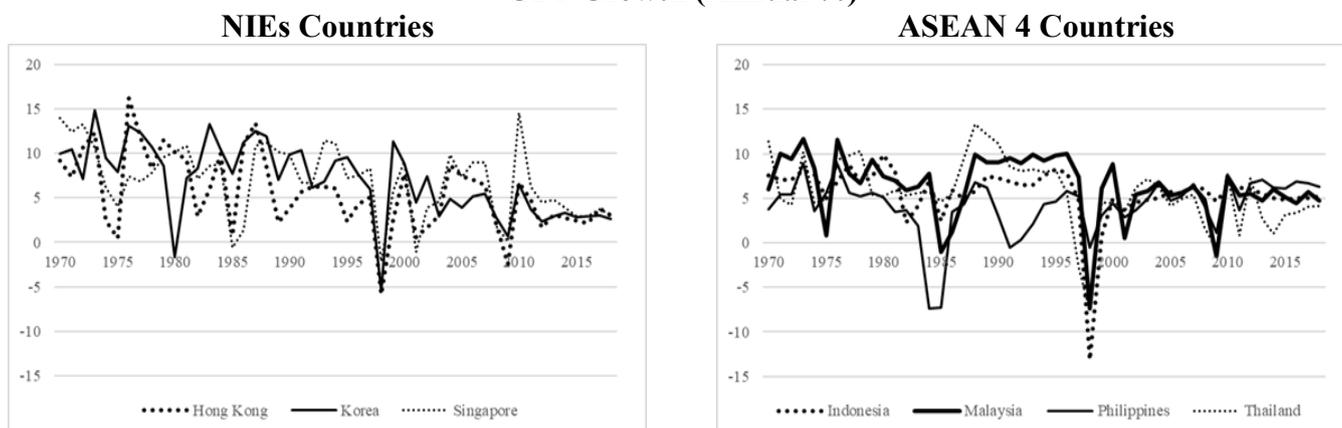
Most likely, in the 1950s in the Philippines and in the 1960s in Indonesia, Malaysia and Thailand, these countries embarked on economic and industrial development by adopting import substitution policies. As the policies continued to be sluggish, these countries adapted export-led policies from the late 1970s. It is clear that these countries have been slower in adopting export promotion policies than the NIEs countries. As described above, this is largely because these countries had natural resources and were able to obtain a certain level of foreign currency. In addition, these countries have to adopt policies because of the economic downturn caused by the second oil shock and falling commodity prices all over the world.

(3) Review of economic and industrial development in NIEs and ASEAN 4 countries

The process of economic and industrial development of NIEs countries and ASEAN 4 countries that we have seen so far can be reviewed with real data. NIEs countries in Asia had already adopted export promotion policies in the late 1960s. As a result, these countries continued to grow at a rate of 5% to 10% in GDP and the trends continued until the Asian currency crisis in 1997. Despite the negative impact of the Lehman Shock, these countries have sustained economic growth of around 5%.

On the other hand, ASEAN 4 countries that adopted export-led policies in the late 1970s and early 1980s continued to grow by around 10% until the Asian currency crisis except for the Philippines. In particular, Malaysia's economic growth from 1988 to 1996 is noteworthy.

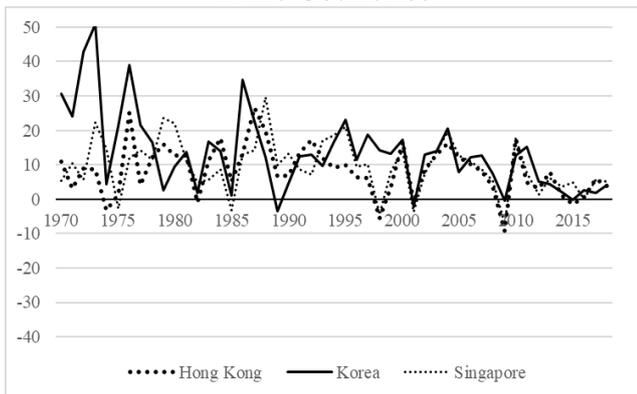
GDP Growth (Annual %)



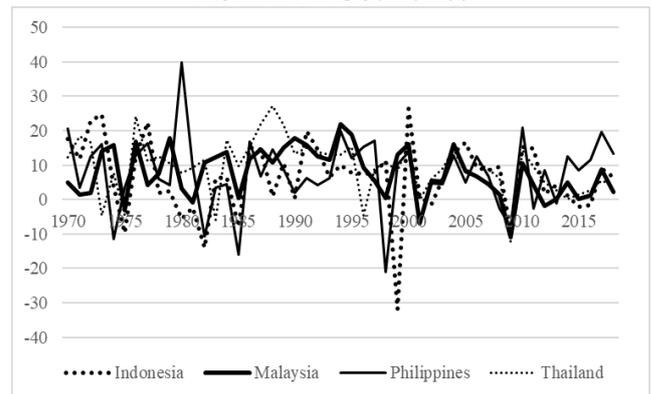
(Source) World Bank. World Development Indicators.

It can be seen that both NIEs countries and ASEAN 4 countries have achieved economic growth through export-led policies by observing annual growth rate of exports of goods and services.

Exports of Goods and Services (Annual % Growth)
NIEs Countries



ASEAN 4 Countries

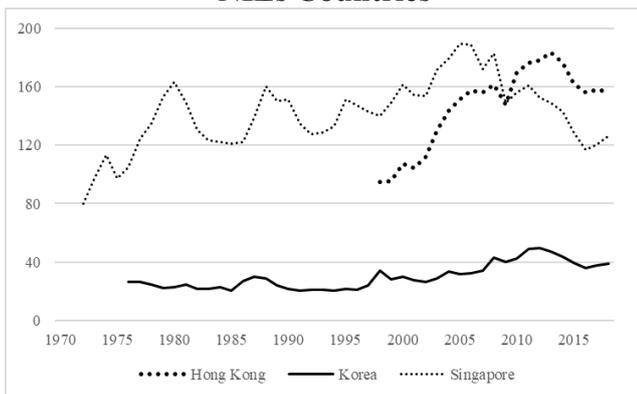


(Source) World Bank. World Development Indicators.

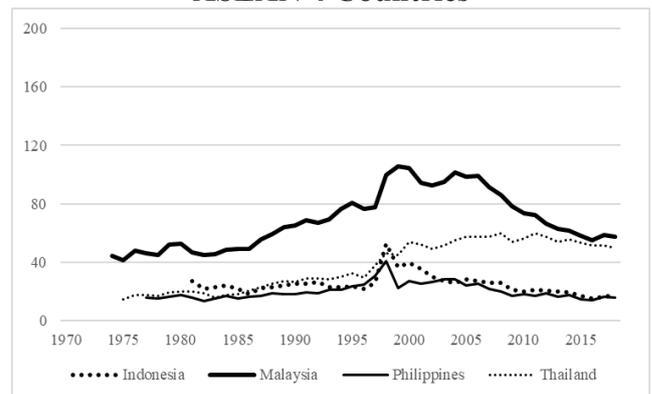
As a result, goods export to GDP have had trends to be increased in Hong Kong and Singapore until mid-2010 in NIEs countries and ASEAN 4 countries until Asian currency crisis.

Goods Exports to GDP (%)¹¹

NIEs Countries



ASEAN 4 Countries

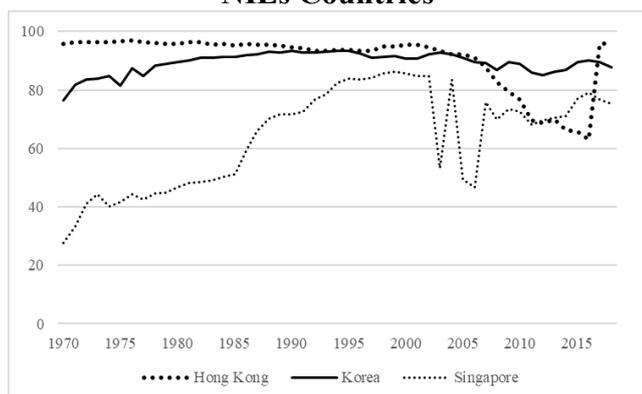


(Source) World Bank. World Development Indicators.

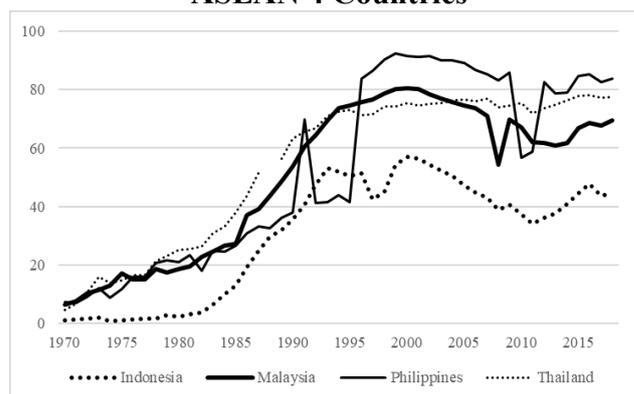
At this point, the question arises as to what products have been exported from these countries. As mentioned earlier, the NIEs countries did not have much natural resources. Therefore, manufactures became the the main export commodities. On the other hand, in the case of ASEAN 4 countries, it can be seen that the shares of manufactures exports have increased significantly.

¹¹ Definition of World Bank: “Goods exports” refer to all movable goods (including nonmonetary gold and net exports of goods under merchanting) involved in a change of ownership from residents to nonresidents. Data are in current U.S. dollars.

Percentage of Manufactures Exports in Merchandise Exports¹² (%)
NIEs Countries



ASEAN 4 Countries



(Source) World Bank. World Development Indicators.

For reference, the export commodities of ASEAN countries in 1970, 1980, 1990 and 2000 are listed as follows:

Percentage of Merchandise Exports (%)

		1970	1980	1990	2000
Indonesia	Agricultural raw materials exports ¹³	34.8	14.1	5.0	6.5
	Food exports ¹⁴	19.6	7.6	11.2	16.4
	Fuel exports ¹⁵	32.8	71.9	44.0	29.7
	Manufactures exports	1.2	2.3	35.5	37.5
	Ores and metals exports ¹⁶	11.4	3.9	4.4	9.9
Malaysia	Agricultural raw materials exports	50.0	31.0	13.8	2.6
	Food exports	12.6	15.0	11.7	11.9
	Fuel exports	7.3	24.7	18.3	15.9
	Manufactures exports	6.5	18.8	53.8	67.2
	Ores and metals exports	22.6	10.2	2.1	2.0
Philippines	Agricultural raw materials exports	25.8	6.1	1.9	0.7
	Food exports	44.0	35.9	18.9	7.4
	Fuel exports	1.6	0.7	2.2	1.9
	Manufactures exports	7.5	21.1	37.9	56.8
	Ores and metals exports	21.0	20.6	8.2	3.9

¹² Definition of World Bank: “Manufactures” comprise commodities in SITC sections 5 (chemicals), 6 (basic manufactures), 7 (machinery and transport equipment), and 8 (miscellaneous manufactured goods), excluding division 68 (non-ferrous metals).

¹³ Definition of World Bank: “Agricultural raw materials” comprise SITC section 2 (crude materials except fuels) excluding divisions 22, 27 (crude fertilizers and minerals excluding coal, petroleum, and precious stones), and 28 (metalliferous ores and scrap).

¹⁴ Definition of World Bank: “Food” comprises the commodities in SITC sections 0 (food and live animals), 1 (beverages and tobacco), and 4 (animal and vegetable oils and fats) and SITC division 22 (oil seeds, oil nuts, and oil kernels).

¹⁵ Definition of World Bank: “Fuels” comprise the commodities in SITC section 3 (mineral fuels, lubricants and related materials).

¹⁶ Definition of World Bank: “Ores and metals” comprise the commodities in SITC sections 27 (crude fertilizer, minerals nes); 28 (metalliferous ores, scrap); and 68 (non-ferrous metals).

		1970	1980	1990	2000
Thailand	Agricultural raw materials exports	24.7	11.2	5.1	5.3
	Food exports	52.3	47.0	28.7	13.2
	Fuel exports	0.3	0.1	0.8	4.8
	Manufactures exports	4.7	25.2	63.1	75.3
	Ores and metals exports	14.6	13.6	1.0	1.3

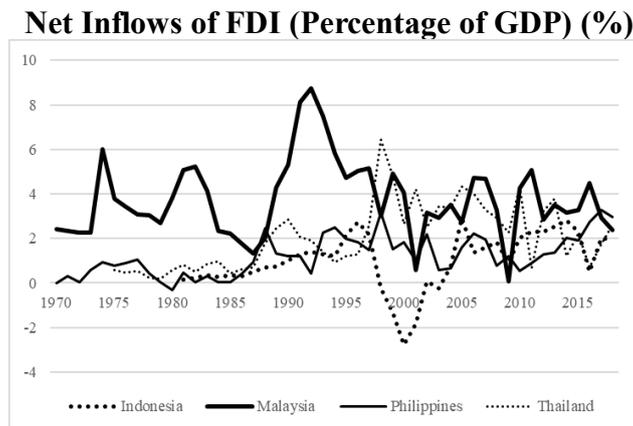
(Source) World Bank. World Development Indicators.

Looking at this table, the shares of manufactures exports in these countries in 1970 and 1980 were not large. This also indicates that manufacturers exports in each country have increased significantly especially after introduction of export-led policies.

(4) Why could manufacturers exports be increased?

As mentioned above, NIEs countries and ASEAN countries have successively launched economic and industrial policies aimed at export-led economies. In this regard, the policies in Malaysia will be described later.

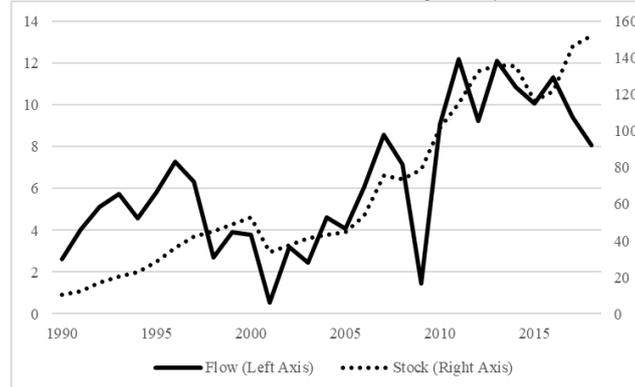
It is important that the ASEAN 4 countries have come up with policies to encourage FDI along with policies to promote manufactures exports. The following table shows the percentage of net inflows of FDI to GDP. Especially in Malaysia, the percentage was around 5% between 1980 and 1983 and between 1989 and 2000.



(Source) World Bank. World Development Indicators.

This trend can also be seen from other database from the United Nations Conference on Trade and Development (UNCTAD) as follows:

Flow and Stock of FDI to Malaysia (Billion US\$)



(Source) UNCTAD. World Investment Reports

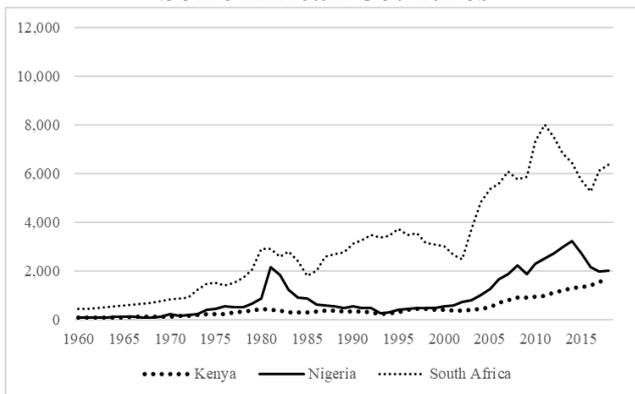
There is no doubt that this huge inflow of FDI to Malaysia had prompted for sustainable economic and industrial development by enabling to acquire international standards of technology and management. At the same time, in order to further attract FDI, appropriate industrial structure for investors had adequately prepared in advance. In this regard, promotion of MSMEs has been one of the most important policies. The next chapter describes what policies the Malaysian government has adopted in light of the results of the field study and the current situations of MSMEs in SADC countries.

(5) Comparison with some African countries selected

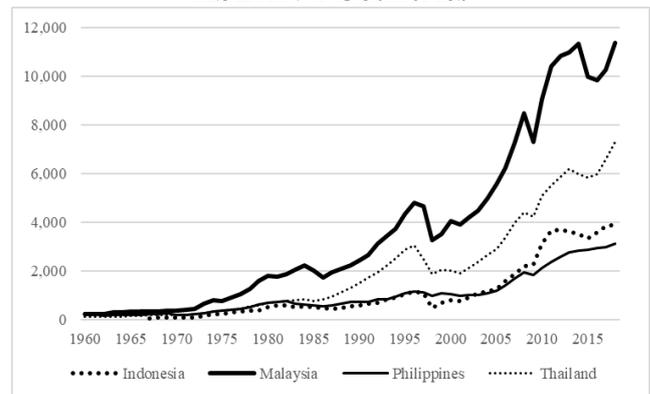
First, trends of GDP per Capita from three countries (Kenya, Nigeria and South Africa) and ASEAN 4 countries should be observed.

GDP per capita (current US\$)

Some African Countries



ASEAN 4 Countries



(Source) World Bank. World Development Indicators.

	1960	1970	1980	1990	2000	2010	2018
Kenya	97.4	141.9	442.5	361.3	397.5	951.7	1,710.5
Nigeria	93.0	224.1	874.4	567.5	567.9	2,292.4	2,028.2
South Africa	443.0	834.6	2,905.8	3,140.0	3,032.4	7,328.6	6,374.0

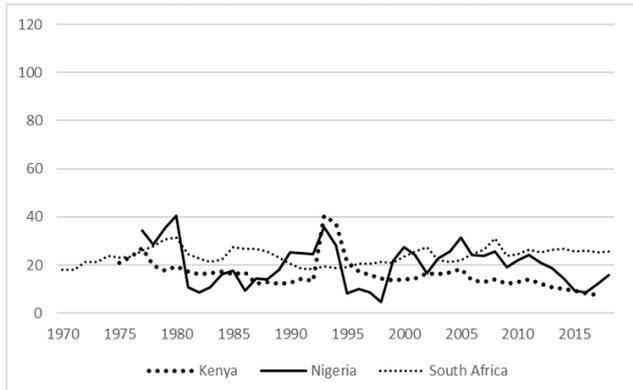
	1960	1970	1980	1990	2000	2010	2018
Indonesia		79.7	491.6	585.1	780.2	3,122.4	3,893.6
Malaysia	234.9	357.7	1,774.7	2,441.7	4,043.7	9,040.6	11,373.2
Philippines	254.5	186.8	685.2	715.9	1,038.9	2,124.1	3,102.7
Thailand	100.8	192.1	682.9	1,508.9	2,007.7	5,076.3	7,273.6

(Source) World Bank. World Development Indicators.

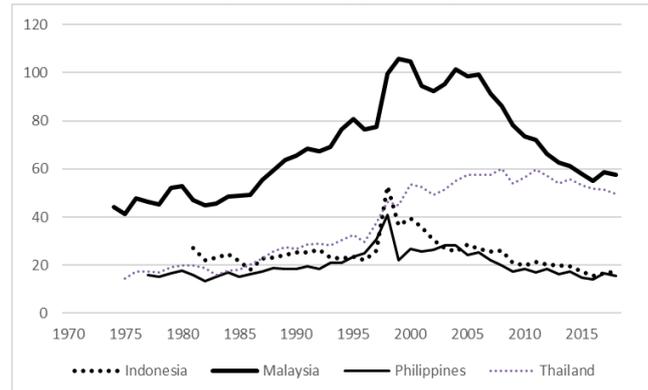
Next, Goods Exports to GDP of these countries are shown in the following figures.

Goods Exports to GDP (%)

Some African Countries



ASEAN 4 Countries



(Source) World Bank. World Development Indicators.

Thus, the GDP per capita of ASEAN 4 countries have been relatively larger than those in three African countries. During this period, while the Goods Exports to GDP of the three African countries remained almost at the same level, the ratio of Malaysia has been particularly large.

3. MSMEs Promotion in Malaysia

(1) Requirement of policies for promotion of MSMEs

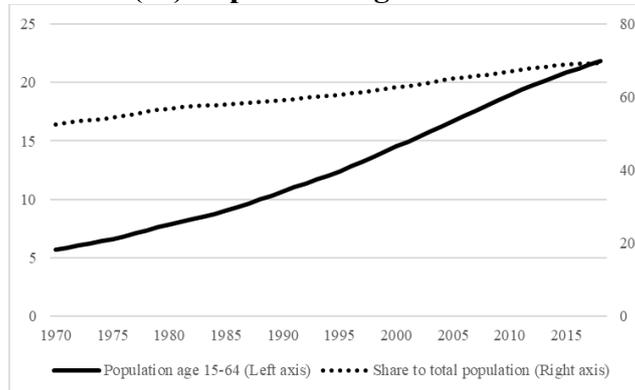
In the previous chapter, the history of the NIEs countries and ASEAN countries was outlined as the results of export-led economic and industrial development. This chapter examines what industrial structure had been needed to promote this type of development. In addition, the actual situation of MSMEs in Malaysia and policies and institutions that contributed to their promotion are described based on the finding at the field study.

Malaysia's export-led economic and industrial development has centered around the light industry, especially the electrical and electronic industries. At that time that Malaysia introduced export-led industrialization, the country was politically stable, had abundant in relatively cheap employment and the government was proactive in attracting FDI. Including other factors, the country was able to attract FDI as shown in the previous chapter.

At the same time, Malaysia sought to diversify the industries to encourage the production of export products. To this end, the government aimed to increase the rate of local procurement in parts and services to foreign manufacturing companies by FDI. This was the win-win relationships for both the country and foreign companies as assembling enterprises. Foreign companies could domestically procure cheap parts and services and the country could create jobs.

As shown in the following figure, number and share of working-age population in the country have been increasing during the period.

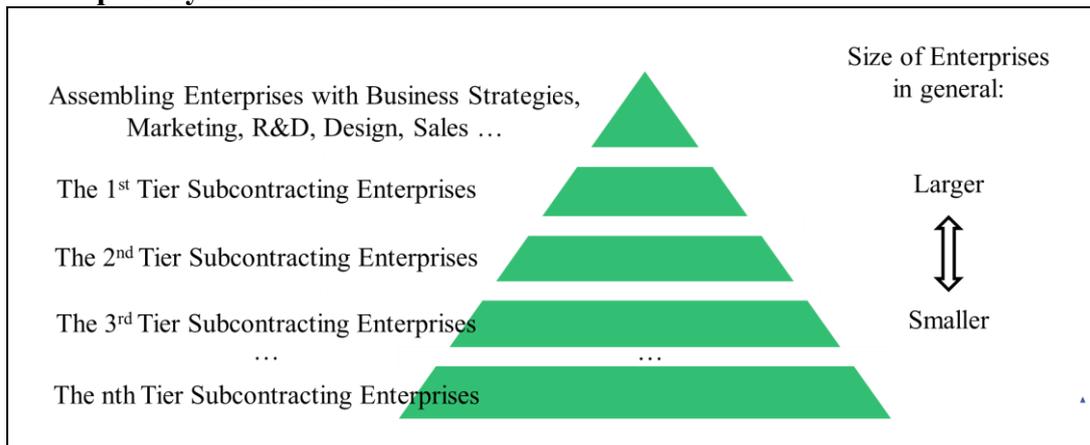
Number (Million) and Share (%) Population Age 15-64 to Total Population in Malaysia



(Source) World Bank. World Development Indicators.

Creating the better business environment including more attractive incentives for foreign investors enables the country to attract additional FDI¹⁷. One of the cores is the policies of promotion of MSMEs for investors to promote local procurement.

Structure of Assembling and Subcontracting by the Size of Enterprises especially in manufactures



The status of MSMEs in Malaysia is as follows. MSMEs in Malaysia are currently defined in the following figure.

¹⁷ At that time, neighboring countries were also adopting export-led economic and industrial development policies by attracting FDI, resulting in the so-called “incentive battle” (such as exemption of tax or provision of subsidies to be provided for further attraction of FDI) among the countries.

Definition of “MSMEs” in Malaysia¹⁸

Sales turnover (Thousand US\$): US\$3,717 ≤ US\$12,391 US\$74 < US\$3,717 < US\$74		Sales turnover (Thousand US\$): US\$743 ≤ US\$4,956 US\$74 < US\$743 < US\$74								
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%;">Manufacturing</th> <th style="width: 50%;">Services and Other Sectors</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;"> Sales turnover: RM15 mil ≤ RM50 mil OR Employees: From 75 to ≤ 200 </td> <td style="text-align: center;"> Sales turnover: RM3 mil ≤ RM20 mil OR Employees: From 30 to ≤ 75 </td> </tr> <tr> <td style="text-align: center;"> Sales turnover: RM300,000 < RM15 mil OR Employees: From 5 to < 75 </td> <td style="text-align: center;"> Sales turnover: RM300,000 < RM3 mil OR Employees: From 5 to < 30 </td> </tr> <tr> <td style="text-align: center;"> Sales turnover: < RM300,000 OR Employees: < 5 </td> <td style="text-align: center;"> Sales turnover : < RM300,000 OR Employees: < 5 </td> </tr> </tbody> </table>			Manufacturing	Services and Other Sectors	Sales turnover: RM15 mil ≤ RM50 mil OR Employees: From 75 to ≤ 200	Sales turnover: RM3 mil ≤ RM20 mil OR Employees: From 30 to ≤ 75	Sales turnover: RM300,000 < RM15 mil OR Employees: From 5 to < 75	Sales turnover: RM300,000 < RM3 mil OR Employees: From 5 to < 30	Sales turnover: < RM300,000 OR Employees: < 5	Sales turnover : < RM300,000 OR Employees: < 5
Manufacturing	Services and Other Sectors									
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Sales turnover: RM300,000 < RM15 mil OR Employees: From 5 to < 75	Sales turnover: RM300,000 < RM3 mil OR Employees: From 5 to < 30									
Sales turnover: < RM300,000 OR Employees: < 5	Sales turnover : < RM300,000 OR Employees: < 5									

(Source) SME Corporation, Malaysia

The numbers and the shares enterprises by size in 2016 are shown in the following table.

Numbers and Shares in Enterprises by Size in Malaysia (2016)

Size	Number	Share
Medium	20,612	2.2%
Small	192,783	20.9%
Micro	693,670	75.3%
Total	907,065	98.5%

(Source) Department of Statistics Malaysia. Economic Census 2016

In addition, the following table shows the numbers and the shares of MSMEs by sector in Malaysia in 2016.

Numbers and Shares of MSMEs by Sector in Malaysia (2016)

Sector	Number	Share
Services	809,126	89.2%
Manufacturing	47,698	5.3%
Construction	39,158	4.3%
Agriculture	10,218	1.1%
Mining and Quarrying	865	0.1%
Total	907,065	100.0%

(Source) Department of Statistics Malaysia. Economic Census 2016

As shown above, there were 907,065 MSMEs in Malaysia, accounting for 98.5% of all enterprises in the country in 2016. In MSMEs, 89.2% of MSMEs are shared by services sector, followed by manufacturing sector (5.3%) and construction sector (4.3%). According to Department of Statistics, MSMEs accounted for 36.6% of GDP, 18.6% of exports, and 65.3% of employment in 2016. In addition, the statistics showed that 20.6% of MSMEs in in the country are women-owned. In addition, These data were based on the actual number of registered enterprises (as formal sector). According to SME Corporation, Malaysia, there are another one million unregistered ones (as informal sector).

¹⁸ Official exchange rate (period average) by World Development Indicators is used to calculate US\$’s amount in 2018.

Malaysia's MSMEs policy is internationally known as one of the best practices. The following sections clarify three practices that would be useful to SADC countries based on the observation during field studies.

(2) Policies for promotion of MSMEs within vision, policy and plan

As mentioned above and shown in the following table, Malaysia adopted economic and industrial policies as the second export-led industrialization in the late 1980s. The diversification of Malaysian industrial base stipulated in the following visions, policies and plans as follows:

Historical Vision, Policy and Plan of Economic and Industrial Development in Malaysia

	Vision/Policy		Master Plan (MP)	Development and Economic Policy	JICA's Support ¹⁹
1966-			1st MP	<Laissez-faire Economic Policy> <Industrialization by Import-substitution>	Support for basic infrastructure development and production increase to establish a foundation of nation building
1970s	NEP ²⁰	2nd MP	<International Economic Policy> "Bumiputra" ²¹ Policy (1971)	First Export-oriented industrialization	
		3rd MP			
1980s			4th MP	<Heavy Industrialization (Selective Import-substitution)>	Support for improving core manufacturing technology to establish a foundation of industrialization and strengthening research function in agriculture, forestry and fisheries sector
			5th MP	<Second Export-oriented Industrialization>	
1990s	Vision 2020	NDP ²²	6th MP	<Diversification of Industry Base>	Support for institution and human resource development to strengthen local industries and support for environmental management and reducing disparities in response to industrialization
			7th MP	<Productivity-driven Growth>	
2000s		NVP ²³	8th MP	<Knowledge-based Economy>	Support for human resource development toward an economy with highly-added value, support for improving people's welfare and collaboration for common challenges in the region
			9th MP	<Moving the Economy up the Value Chain>	
2010s		NTP ²⁴ NEM ²⁵	10th MP	<Private Sector-led Economy and Innovation-led Economy>	
			11th MP		

(Source) JICA. 2017. The Study on Achievements and Roles by Japanese Official Development Assistance for Social and Economic Development in Malaysia (Final Report).

The institutional background responsible for the promotion of MSMEs in Malaysia is as follows.

¹⁹ Some details of JICA's support are described in the next chapter.

²⁰ New Economic Policy (NEP) 1971-1990.

²¹ The Bumiputra Policy was adopted by the Malaysian government in 1971 to prioritize Malay people for aiming at improving the status of Malays.

²² National Development Plan (NDP) 1991-2000.

²³ National Vision Policy (NVP) 2001-2010.

²⁴ National Transformation Programme (NTP).

²⁵ National Economic Model (NEM).

Institutional Progress of MSMEs Promotion in Malaysia

1996:	Establishment of “Small and Medium Industry Development Corporation (SMIDEC)” under Ministry of International Trade and Industry (MITI)
2004:	Formation of National SME Development Council (NSDC) as highest governing body to promote MSMEs (Bank Negara Malaysia (BNM) was appointed as NSDC’s Secretary.)
2008:	SMIDEC took over the role of NSDC’s Secretariat from BNM.
2009:	SMIDEC officially rebranded as Small and Medium Enterprise Corporation Malaysia (SME Corporation, Malaysia).
2012:	Formulation of SME Masterplan (2012 – 2020)

(Source) SME Corporation, Malaysia

Promotion of MSMEs in Malaysia was strengthened by the establishment of the National SME Development Council (NSMC) by the Malaysian government in 2004. At that time, Bank Negara Malaysia (Central Bank of Malaysia) was in charge of the Secretariat function. However, the functions were transferred to the Small and Medium Industries Development Corporation (SMEDEC) (established May 2, 1996) in 2008 and SMEDEC was reorganized into SME Corporation, Malaysia, on October 2, 2009. In addition, the SME Masterplan (2012-2020) was formulated in 2012.

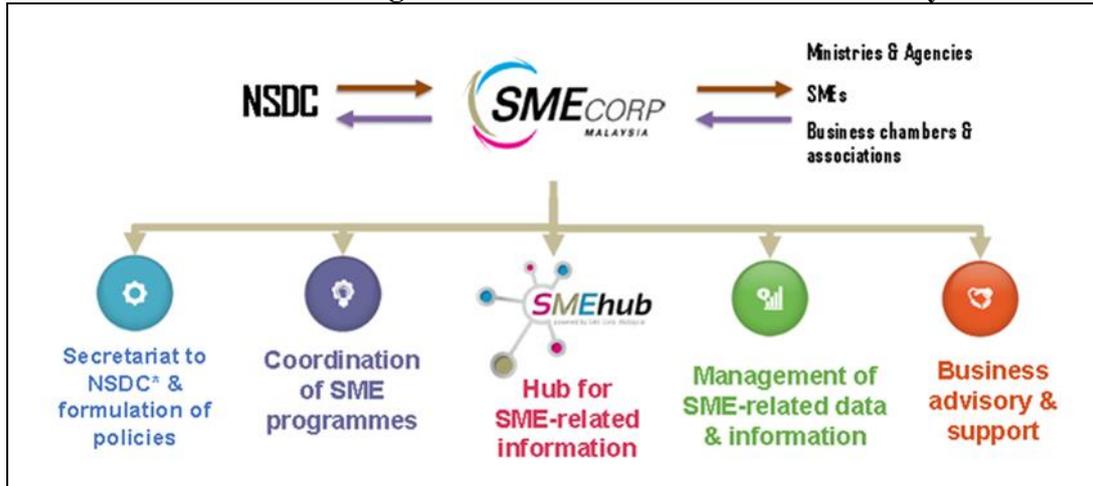
The promotion of MSMEs in Malaysia is clearly positioned in the country's vision, policies and plans and can be considered to have been properly implemented. At the same time, it can be internationally known that the institutional framework for these implementations is well established for promotion of MSMEs.

(3) Institutional Arrangement for MSMEs Promotion in Malaysia

In each year, policies of MSMEs promotion in Malaysia are decided by NSDC led by the Prime Minister²⁶. NSDC asks SME Corporation, Malaysia, to monitor progresses and scrutinize the results of each programs during the current fiscal year. SME Corporation, Malaysia, has a responsibility to evaluate the programs for MSMEs promotion implemented by 16 ministries and 60 institutions. In addition, to avoid duplication of programs by different ministries and institutions is also included as their important mission. Furthermore, a scrap and build of program is also determined.

²⁶ This means that NSDC is chaired by the Prime Minister of Malaysia.

Institutional Arrangement for MSMEs Promotion in Malaysia

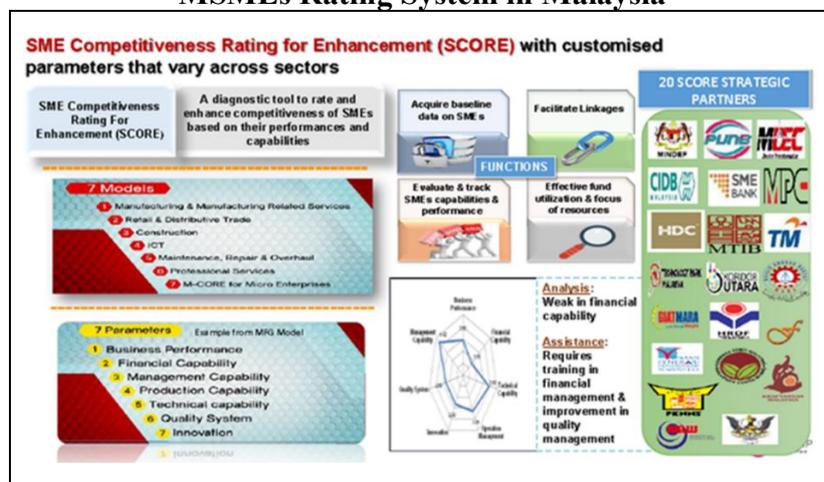


(Source) SME Corporation Malaysia

(4) Rating system for MSMEs in Malaysia

SME Corporation, Malaysia, rates MSMEs as indicators for facilitating borrowing mainly from private financial institutions, obtaining government support and promoting linkages with private companies. This indicator is also useful to collect baseline data for MSMEs in the country. The indicator is named as SME Competitiveness Ratings for Enhancement (SCORE), which was firstly introduced in 2007. In rating, 20 partners related to MSMEs promotion evaluate each of the 7 sectors using 7 variables in each^{27,28}. As of 2016, 3,938 companies have ratings and 9 companies are ranked 5 Star, which shows the highest reliability.

MSMEs Rating System in Malaysia



(Source) SME Corporation Malaysia

²⁷ Seven sectors are 1) manufacturing & manufacturing related services (MRS), 2) manufacturing and maintenance, repair & overhaul (MRO), 3) construction, 4) professional services, 5) retail & distributive Trade, 6) information & communication technology (ICT) and 7). micro-enterprise.

²⁸ Seven variables includes 1) business performance, 2) financial capability, 3) management capability, 4) production capability, 5) technical capability, 6) quality system and 7) innovation.

4. Official Development Assistance (ODA) of Japan for MSMEs Promotion in Malaysia

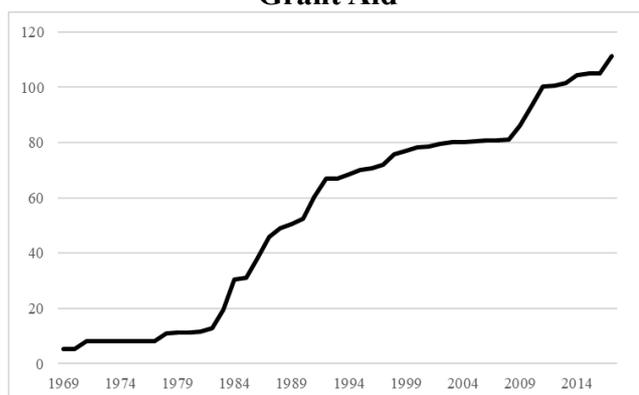
Through a field study in Malaysia, a glimpse of the results of the promotion of MSMEs, which is internationally well known as one of the best practices, was gained. In short, policies of MSMEs promotion are clearly defined among the national economic and industrial policies, effective and efficient institutions for the promotion are organized and matured appropriate rating systems are beneficial for various uses for stakeholders. These cases can be applied to policies of MSMEs promotion in line with the traditional economic and industrial structure even in SADC countries. From now on, how Japan has contributed to the support of Malaysia's MSMEs, especially in the financial sector, through the framework of Official Development Assistance (ODA) would be described.

(1) Brief History

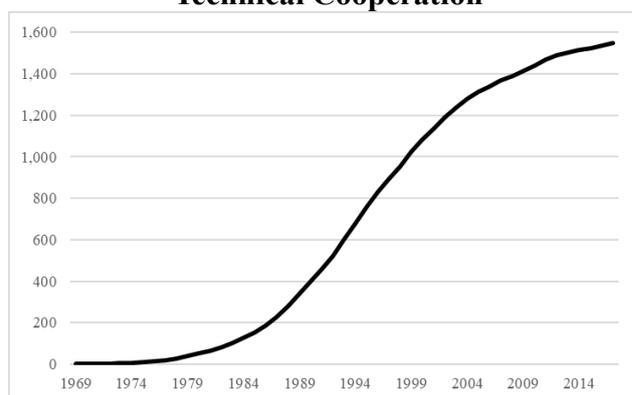
Japan's ODA to Malaysia was started in 1956. Japanese ODA can be classified into three types: grant aid, technical cooperation and ODA loan. According to the Japan's Ministry of Foreign Affairs, the cumulative amounts of Japan's ODA to Malaysia from 1969 to 2017 in each type were as follows: grant aid (111.4 Million US\$), technical cooperation (1,550.2 Million US\$) and ODA loan (6,346.3 Million US\$). In addition, the cumulative amount of repayment from Malaysia to Japan in ODA loan during same period was 5,683.1 Million US\$.

Cumulative Amount of Japan's ODA to Malaysia (Million US\$)

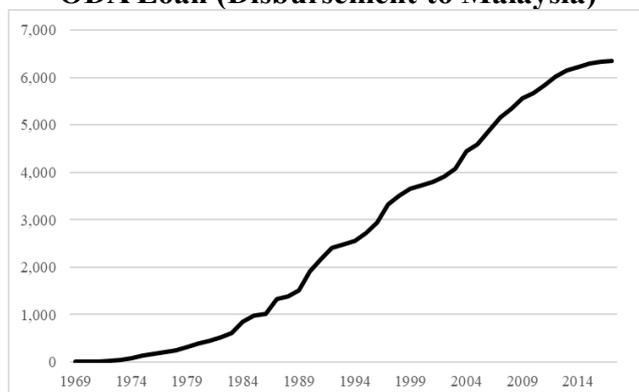
Grant Aid



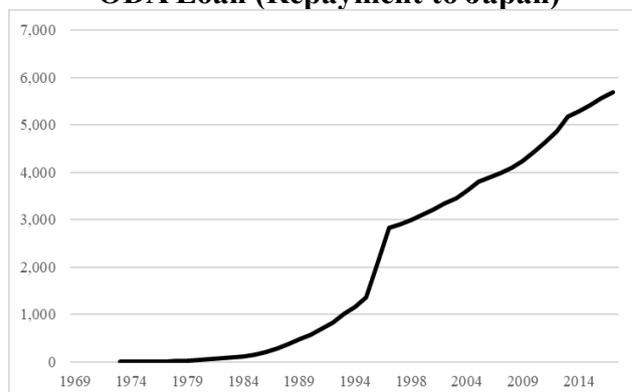
Technical Cooperation



ODA Loan (Disbursement to Malaysia)



ODA Loan (Repayment to Japan)



(Source) Japan's Ministry of Foreign Affairs.

(2) Support to MSMEs Finance by ODA Loan

The sectors of Japan's ODA to Malaysia can be classified as follows²⁹: 1) Road and Water Infrastructures, 2) Energy, 3) Industrial Promotion, 4) Higher Education and 5) Urban Environment (Sewage and Waste Management). MSMEs promotion is classified in Industrial Promotion in the Report.

Major cooperation projects for industrial promotion are as follow:

Major Cooperation Projects for Industrial Promotion

Start Year ³²	End Year ³³	Type ³⁰	Project Name	Amount ³¹	
				JPY ³⁴	USD ³⁵
1966		OA	Textile Mill Construction	580	1.6
1971		OL	The Project of Plantation Refined Sugar Plant in Perlis	2,997	8.5
1973	1975	TC	MARA Vocational Training Institute, Kuala Lumpur		
1976		GA	ASEAN Project on Tyre Research Laboratory	600	2.0
1976	1981	TC	MARA Vocational Training Institute, Johor Bahru		
1978	1984	TC	Metal Industry Technology Centre		
1981	1985	TC	Project on the National Metrology Laboratory		
1982		GA	The Establishment Project of the Centre for Instructor and Advanced Skill Training in Malaysia	1,740	7.0
1982	1991	TC	Centre for Instructor and Advanced Skill Training (CIAST)		
1982		OL	ASEAN Urea Project (Malaysia)	33,600	134.9
1983		GA	The Establishment Project of the Centre for Instructor and Advanced Skill Training in Malaysia	2,060	8.7
1985	1990	TC	National Computer Institute		
1986		LA	ASEAN Urea Project (Malaysia) (2)	4,797	28.5
1987	1992	TC	ASEAN Project on Characterization of Fine Ceramics		
1988	1993	TC	Foundry Technology Unit		
1988		OL	AJDF ³⁶ Category B ³⁷ (Bank Industri Malaysia Berhad)	10,013	78.1
1988		OL	AJDF Category B (Bank Pembangunan Malaysia Berhad)	5,890	46.0
1988		OL	AJDF Category B (Malaysian Industrial Development Finance)	10,442	81.5
1989	1994	TC	The Radiation Applications Project		
1992		OL	Small and Medium Scale Industry Promotion Program (SMIPP) (Malaysian Industrial Development Finance Berhad (MIDF))	4,660	36.8
1992		OL	Small and Medium Scale Industry Promotion Program (SMIPP) (Bank Industri Malaysia Berhad (BIMB))	4,660	36.8

²⁹ JICA. 2017. The Study on Achievements and Roles by Japanese Official Development Assistance for Social and Economic Development in Malaysia (Final Report). Hereafter, this report will be referred to as "Report".

³⁰ Type of cooperation: OL for ODA loan; TC for technical cooperation; and GA for grand aid.

³¹ Amount: amount of Exchange of Note (E/N) and amount of Loan Agreement (L/A).

³² Start Year: Year of E/N for grant aid and of L/A for ODA loan.

³³ Completion years of loan aid projects are omitted due to difficulty in identifying them from the disclosed information.

³⁴ Million Japanese Yen.

³⁵ Million US Dollar. "Official exchange rate (LCU per US\$, period average)" of World Development Indicators by World Bank was used for conversion from Japanese Yen to US Dollar. The definition is "Official exchange rate refers to the exchange rate determined by national authorities or to the rate determined in the legally sanctioned exchange market. It is calculated as an annual average based on monthly averages (local currency units relative to the U.S. dollar)."

³⁶ AJDF is an abbreviation for ASEAN Japan Development Fund (ASEAN-Japan Development Fund).

³⁷ Category B indicates development finance loans.

Start Year ³²	End Year ³³	Type ³⁰	Project Name	Amount ³¹	
				JPY ³⁴	USD ³⁵
1992		OL	Small and Medium Scale Industry Promotion Program (SMIPP) (Bank Pembangunan Malaysia Berhad (BPMB))	4,660	36.8
1993	1997	TC	Project on Evaluation and Analysis of Hazardous Chemical Substances and Biologic		
1994	1999	TC	1994 1999 TCP The Malaysia External Trade Development Corporation		
1995	2000	TC	The Malaysia AI System Development Laboratory		
1996	2000	TC	Measurement Centre of SIRIM (Phase 2)		
1998	2002	TC	The Project on Risk Management of Hazardous Chemical Substances		
1998	2004	TC	Japan-Malaysia Technical Institute (JMII)		
1999		OL	Fund for Small and Medium Scale Industries	16,296	143.1
1999	2002	TC	Capacity Building on Product Test on IEC335 & IEC598 in Malaysia		
2003	2007	TC	Human Resources Development and Improvement in Tax Administration Project		
2004	2006	TC	Improving Economic Indicators of Malaysia		
2006	2008	TC	Risk Management System for Customs		
2006	2009	TC	Development of Human Resource for Small and Medium Industries		
2006	2013	TC	Economic Partnership Program (EPP) "Vocational Training Programme"		
2007	2010	TC	Human Resource Development in the Intellectual Property Rights' Administration		
2007	2010	TC	Human Resources Development and Improvement in Tax Administration Project (Phase 2)		
2008	2011	TC	Risk Management Approach at Clearance and Post Clearance Process		
2008	2011	TC	Improvement of Vocational Training System to Keep Meeting with the Needs of Industries		
2009	2012	TC	SMIDEC-JICA Human Resource Development Phase 2		
2010	2013	TC	Human Resource Development and Improvement in Tax Administration		
2015	2018	TC	Project for Enhancing Transparency and Predictability of Preferential Role of Origin on EPA/FTAs in Customs Clearance		

(Source) Report.

Based on the Report, there are two ODA loan to finance for MSMEs as follows (In the table above, the two loans are surrounded by double lines.):

(a) Small and Medium Scale Industry Promotion Program (SMIPP)

According to JICA, contents of this ODA loan are as follow:

This project aimed to develop and foster MSMEs, which are the driving force of Malaysia's economic and industrial development, especially for the private sectors such as manufacturing and tourism. This is a so-called "two-step" loan, which is provided by intermediation of institutions as "executing institutions": Malaysian Industrial Development Finance Berhad (MIDF), Bank Industry Malaysia Berhad and Bank Pembangunan Malaysia Berhad.

This loan covers all foreign currency funds required for sub-loans (financing for capital investment and purchase of environmental protection equipment for MSMEs as end users and consulting services for improving management efficiency and improving productivity and technology) and consulting services consulting services (review of sub-loan and support of supervision the executing agencies.)

<Terms and Amount of Loan>

Amount (Million yen)	Annual interest rate (%)		Repayment period (years)	Grace period (years)	Procurement
	Project	Consulting services			
13,980	3.00	3.00	25	7	G/U ³⁸

The Amount is approximately US\$110.4 (Million)³⁹.

According to JICA's evaluation report, this project was implemented as follows: Looking at the financing status by industry, financing was smooth across the industries as originally planned. By sector, more than 80% of the three implementing agencies funded the manufacturing sector. In particular, MIDF made good progress on sub-loans and completed a loan equivalent to the total loan amount (¥ 4,660 million) in two and a half years.

On the other hand, the report said that, in the case of BIMB and BPMB, financing was slower than expected due to delays in funding requirements. As a priority, the purchase of environmental protection equipment was relatively low in priority as MSMEs, so only one loan was provided by BIMB to waste disposal facility.

(b) Fund for Small and Medium Scale Industries

As mentioned above, Malaysia sustained economic growth by promoting export-led economic development and, in particular since the 1990s, promotion of MSMEs became one of the core policies. The results were clear, but the currency crisis broke out in Asian countries in 1997 and the economy slowed significantly. As a countermeasure, financial institutions tightened lending of funds not only to large enterprises but also to MSMEs. In the face of these situations, the government established Fund for Small and Medium Scale Industries in 1998 and tried enhancing financing to MSMEs. Upon request of the government, Japanese ODA loan was provided.

According to JICA, the purpose of this ODA loan is to provide longer-term and lower-interest financing to MSMEs through three financing institutions: Malaysian Industrial Development Finance Berhad (MIDF), Bank Pembangunan Infrastruktur Malaysia Berhad (BPIMB) and Bank Industri & Teknologi Malaysia Berhad (BITMB)⁴⁰.

<Terms and Amount of Loan>

Amount (Million yen)	Annual interest rate (%)		Repayment period (years)	Grace period (years)	Procurement
	Project	Consulting services			
16,296	0.75	0.75	40	10	G/U

The Amount is approximately US\$143.1 (Million)⁴¹.

³⁸ General Untied.

³⁹ "Official exchange rate (LCU per US\$, period average)" in 1992 of World Development Indicators by World Bank is used as exchange rate.

⁴⁰ BPIMB and BITMB were newly merged into Bank Pembangunan Malaysia Berhad (BPMB) in 2005 and Small Business Bank (SMEB), which handles SME finance, was established as a new subsidiary under BPMB.

⁴¹ "Official exchange rate (LCU per US\$, period average)" in 1999 of World Development Indicators by World Bank is used as exchange rate.

The JICA's evaluation report analyzed as follows: The number of financing by this loan was 483 and the amount was MYR 547.7 million in total. By industry, financing to manufacturing accounted for 75.4% in number and 69.6% in of financing. By application, purchases of new machinery and equipment to increase capacity, improve facilities and manufacture new products accounted for 81.0% in number and 72.2% in loan. By region, the West Coast of the Malay Peninsula, where industry has been concentrated, accounted for about 80% and the breakdown by lender's size indicated that financing to MSMEs were high.

III. Conclusion

After reviewing the MSMEs policy (especially in terms of financing to MSMEs) in Japan and Malaysia until now, the basic points in considering MSMEs finance that should be adopted by SADC countries are described as the conclusion of this report.

(a) Positioning of MSMEs promotion in upper level of policies and promotion of division of roles among government and governmental institutions

In both Japan and Malaysia, MSMEs policies are embedded in higher level of policies such as visions, strategies or plans. Every country formulates these policies for its future economic, industrial and social development by consideration of world economy and domestic circumstances. At the same time, it is no exaggeration to say that it is impossible for larger companies to provide production and services only by themselves. Given that MSMEs make up the majority of companies in each country, it is not surprising that MSMEs policies are appropriately included in higher level of policies.

At the same time, there are a lot of institutions to support development of MSMEs. This is a matter of course from the viewpoint that it is necessary to solve issues and challenges that MSMEs are facing. In some cases, projects and programs are offered in duplicate to various institutions to solve these issues and challenges. In the face of budget constraints, it is important to promote clear division of roles among relevant institutions for MSMEs promotion.

(b) Centricity of MSMEs financing within the framework of promotion of MSMEs

It cannot be denied that MSMEs requires supports in various kinds of expertise due to their natures. MSME policies in SADC countries focus primarily on job creation. If a government-funded DFI finances MSME in an attempt to achieve policy goals as well as create jobs, MSME failures are theoretically unacceptable because the government did not achieve both goals through DFI at the same time.

MSMEs can obtain various kinds to supports to be promoted. One of the most important is a financial support because of the the fact that financial issues and challenges are greatly affected by the sustainability of MSMEs. In this regard, the centricity of MSMEs financing should be considered within the policies. In this point, it should be noted that working capital is more important than initial capital as an example of Japan's community finance.

(c) Importance of daily communication with MSMEs for their supporting institutions

When developing MSME policies, armchair discussions should be avoided. Originally, MSME has various kinds of issues and challenges. MSMEs do not always keep track of all projects and programs that support institutions can offer. At the same time, it is difficult for supporting institutions to understand all the issues and challenges MSMEs face. In other words, by discussing each other through daily communication, the possibility of solving them would be increased. At the same time, it would be possible to understand projects and programs required for the support organization. The importance is to create a framework where both MSMEs and supporting institutions can talk using the same words.

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